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## Terminology Department

American Institute of Accountants. Special Committee on Terminology

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## Terminology Department

CONDUCTED BY THE SPECIAL COMMITTEE ON TERMINOLOGY OF THE AMERICAN  
INSTITUTE OF ACCOUNTANTS

The special committee on terminology submits the following tentative definitions for consideration and criticism. Comments from readers will be welcome. Letters may be addressed to the committee in care of THE JOURNAL OF ACCOUNTANCY.

### *STATEMENT—LOSS AND GAIN:*

See "Statement—profit and loss." \*

### *STATEMENT—MANUFACTURING:*

A statement showing for a specific period (1) quantity manufactured, (2) details of direct cost of labor and material and (3) expenses of manufacture. Such a statement, made by a concern engaged in manufacturing, selling and trading, should show as expenses of manufacturing all those expenses which would be incurred if it were engaged solely in manufacturing, apportioning as judiciously as possible any expenses incurred jointly for manufacturing and other activities.

### *STATEMENT—OPERATING:*

A section of the profit-and-loss account of an enterprise engaged in a business of such character that performance of physical service is the principal source of revenue. Railways, gas and water companies, and other public utilities may properly give an operating statement. Such a statement sets forth the ordinary income arising from the principal business of the enterprise and the cost of rendering the service. The expression is also applied to the cost statements of certain businesses or departments, such as foundries, smelters, ice-plants, etc.

### *STATEMENT—PERCENTAGE:*

A statement of profit and loss, giving not only the concrete figures for each item of cost and of income but also figures showing the percentage ratio of each to some total. Usually the percentages are calculated as parts of the total of ordinary net sales, but occasionally the total net cost is taken as 100%. Other statements, such as manufacturing statements, may be accompanied by percentage figures; the basic figure taken as 100% will in each case be selected with a view to the surrounding circumstances. For a manufacturing account it is usually total net cost of goods manufactured.

### *STATEMENT—PRO FORMA:*

A statement consisting of imaginary figures but exhibiting the form in which the figures would appear if they were actual. Statements that are partly estimated, given as an indication of what the actual figures will be, should not be called pro forma statements, but estimated or approximated statements.

### *STATEMENT—REALIZATION AND LIQUIDATION:*

This term refers to a statement showing the progress made in liquidating the affairs of an enterprise that is going out of business, because of insolvency or

\* See THE JOURNAL OF ACCOUNTANCY, December, 1928.

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for other reasons. Any form clearly setting forth the progress of liquidation is permissible. The "realization" is the conversion of assets into money and the "liquidation" is the payment of liabilities and return of capital.

### *STATEMENT—RECAPITULATION:*

This term has no specific technical meaning. It is any statement that summarizes the figures of a more extended statement.

### *STATEMENT—RECEIPTS AND DISBURSEMENTS:*

Needs no definition; see "Statement—cash." \*

### *STATEMENT—RECEIPTS AND PAYMENTS:*

Needs no definition; see "Statement—cash." \*

### *STATEMENT—RECONCILIATION:*

Where two parties have dealings each will keep an account with the other. Owing to delays in mail, differences of currency, failures of one to notify the other of debits and credits, disputes, differences of accounting methods, and for other reasons, the accounts of one party may show a condition differing from that shown by the books of the other. A statement setting forth these differences and showing that the accounts agree in other respects is a reconciliation statement. A familiar case is the reconciliation statement of the books of a bank depositor with his bank's statement. Cheques drawn but not presented for payment, interest credited but not taken up by the depositor, deposits made after bank closing hours and other items may appear on a statement reconciling the balance as stated by the bank with that shown by the books of the depositor. The approved procedure in preparing a reconciliation statement is to apply to the balances shown by the respective parties adjustments representing the items which should be taken into account by them as of the date of the reconciliation, bringing each into agreement with the correct balance between them.

### *STATEMENT OF ACCOUNT:*

Where two parties have dealings, not for spot cash, either of them may send to the other a statement showing the condition of the account, giving details of debits and credits and of the balance. Such a statement is a statement of account.

### *STATEMENT OF AFFAIRS:*

In accounting this is a statement of liabilities and assets, excluding capital stock or other capital, usually prepared for creditors of an enterprise that is financially embarrassed. It should show as clearly as possible the relative liquidity of assets; the secured liabilities, if any, and the amount expected to be realized from assets, not the book values; and should be accompanied by a statement of any material facts, such as contracts existing, etc.

### *STATEMENT OF FINANCIAL CONDITION:*

In accounting this is a statement of assets and liabilities, in which special attention is given to the relation of current assets to current liabilities.

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\*See *THE JOURNAL OF ACCOUNTANCY*, December, 1928.

*STATEMENT OF EARNINGS* }  
*AND EXPENSES* } :  
*STATEMENT OF EARNINGS* }

This is a statement of part of the profit-and-loss account prepared by an enterprise engaged in rendering physical services, showing the income from such sources and the expense of doing the work; it does not include incidental income from sources other than the principal business or expenses other than those necessary to that business. Interest on obligations, interest received from investments and some other items are taken up in a separate part of the profit-and-loss account.

*COMPANY—AFFILIATED:*

A company which by reason of stock ownership is permanently controlled by another company; the name indicates that the company is the "child" of the "parent," or controlling company. It is not necessary that the entire issue of the company's stock should be owned by the controlling company.

*COMPANY—ALLIED:*

A company that by reason of stock ownership, or contracts, or for other reasons carries on operations which are supplementary or complementary to those of some other company or companies. There may be intercompany stock ownership, but this is not essential; the stock of the several companies may be owned by the same interests; or the operations may be such that the by-products of one company are the raw material of another. Thus, in the production of electrolytic alkali, hydrogen gas is a by-product that must be used on the spot; hence the existence of an allied company producing synthetic ammonia, using the hydrogen therefor.

*COMPANY—APPRAISAL:*

A company engaged in appraising physical properties. Such appraisals are frequently made the basis upon which valuations of fixed assets are determined for the purpose of issuing stock or obligations against them.

*COMPANY—ASSOCIATED:*

An associated company differs little from an allied company. The term "allied" indicates a rather more permanent alliance than the term "associated," but the difference is not only small but is also ill-defined.

*COMPANY—BONDING:*

A company engaged in the business of insuring employers against losses through dishonesty of employees; some bonding companies also act as guarantors for contractors who have to give bonds for due performance of contracts; other forms of bonds, as bail bonds, etc., may also be given.

*COMPANY—CONTROLLED:*

A company which, by reason of stock ownership, is controlled by another company. At least a majority of voting stock must be owned by the controlling company.

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### *COMPANY—CONTROLLING:*

A company owning a majority of the voting stock of another company over which it exercises control by virtue of that stock ownership.

### *COMPANY—HOLDING:*

A company, the principal business of which is to hold the stock of one or more other companies. A holding company may also be directly engaged in business on its own account, but in so far as it is a "holding company" its business does not include active operations. Some holding companies control the operations of some or all of the companies whose stocks they hold; some take no part in controlling the operations of other companies but act as investors only.

### *COMPANY—INDUSTRIAL LIFE* (should be "Industrial life-insurance"):

A life-insurance company engaged in the issue of small policies, the instalments of the premiums on which are payable at short intervals, the arrangement being intended to facilitate the purchase of life insurance by relatively poor people, such as industrial workers, who receive their income at short intervals—weekly, monthly, etc.

### *COMPANY—LIMITED* *COMPANY—LIMITED LIABILITY* } :

A variety of companies organized under the laws of Great Britain, her colonies, or of other nations that have adopted the plan under which such companies are authorized. The capital is represented by stock of a stated value per share and the liability of stockholders in respect of such shares is limited to the stated amount per share. In the United States most corporations are, in effect, limited liability corporations, but the term "limited" is not used in their titles.

### *COMPANY—MERGED:*

A merged company can not exist; the term is used in speaking of a company that once had a separate existence, but now has lost its identity and become an indistinguishable part of a combination of two or more companies that have merged.

### *COMPANY—NON-OPERATING:*

In the course of development of railway systems some small lines have been absorbed in such a way as to leave the small company existing, the large system operating its track in conjunction with other lines and paying to the stockholders of the smaller company agreed dividends. The smaller company becomes a "non-operating" company.

### *COMPANY—ONE-MAN:*

A term used in describing a company controlled and owned entirely, or nearly so, by one man; slang, not in excellent standing nor a desirable term.

### *COMPANY—OPERATING:*

See "Company—non-operating." Any company actively engaged in business is an operating company; the term, while not very well defined, is usually used to describe a company that operates the plant of another company, either in addition to its own plant or alone.

**COMPANY—PARENT:**

Literally, a company that has children. A company that through stock ownership permanently controls one or more other companies. A parent company may own or control companies that it has originated (true children) or companies whose stock it has acquired (adopted children) or both. It may, and often does, have fully owned subsidiaries, partly owned and fully controlled subsidiaries, allied companies and associated companies. There are certain prominent pipe-line companies, for example, whose stocks are owned in equal parts by two or more other allied companies, and other pipe lines whose stock is not owned by other companies but which are necessarily associated with them. The question of classification of the interests of a parent company in subsidiary, associated and allied companies is an extremely difficult one.

**COMPANY—PUBLIC-UTILITY:**

A company engaged in rendering to the public service of a kind making it essential to obtain a franchise therefor. Such operations are necessarily of a monopolistic character, and are therefore subjected to legal restraints from which fully competitive business is exempt. Gas, water and electric current supply, railroad transportation, inland water transportation, power service where current is passed over highways, telephone service—all are activities described as those of public-utility companies.

**COMPANY—SAFE-DEPOSIT:**

A company maintaining vaults in which valuables may be deposited. The depositor has his own compartment, and the safe deposit company does not take the valuables into its custody or have any knowledge of what has been deposited. Its duty is done when it has preserved the depositor's compartment from disturbance. There are also cases in which safe-deposit companies store silver, paintings, etc., in their own vaults, giving receipts for the articles and becoming responsible for their care. The business of these companies differs somewhat from that of the safe-deposit companies whose business is carried on as companies allied with public banks, but there is no distinction made in the descriptive terms applied to them.

**COMPANY—STOCK:**

A company, the capital of which is represented by shares of stock—an incorporated company, a limited-liability company, a joint-stock company, etc.

**COMPANY—SUB  
COMPANY—SUBSIDIARY } :**

A company, the voting stock of which is fully owned, or nearly so, by another company, to which the first company is a subsidiary. To qualify as a subsidiary company for the purpose of rendering consolidated income-tax statements it is necessary that the control be very firmly fixed in the hands of the controlling company, intercompany stock ownership, ownership by the same individuals and some other considerations being given weight. Reference to the latest tax regulations and decisions is recommended, as the rules are subject to periodical revision.

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### *COMPANY—TRANSPORTATION:*

A company publicly engaged in the business of transporting for pay either passengers or freight; the term is applied to steamship, railway, trolley, bus and taxicab lines, and probably will be applied to companies engaged in aerial traffic. Express companies, although transporting freight, are not spoken of as transportation companies.

### *COMPANY—UNDERLYING:*

In forming consolidations it frequently happens that some absorbed company has franchises, patents, or other rights that are not transferable and are necessary to the consolidation. The company having such franchises or rights is kept alive, all its stock being owned by the consolidation. Such a company is an underlying company.

### *COMPANY—UNLIMITED:*

A company each of whose stockholders is liable for all the debts of the company, just as a partner is liable for the debts of a partnership.

### *CORPORATION—AFFILIATED:*

Same as "Company—affiliated."

### *CORPORATION—BUSINESS:*

A corporation engaged in buying and selling or manufacturing and selling merchandise. The term is of more importance in Cuba and some other Latin American countries than in this country, as taxes are imposed differently on corporations classed as business corporations and on other corporations. A corporation building roads for profit would be classified, in such countries, as a business corporation, and taxes would be assessed accordingly.

### *CORPORATION—CLOSE:*

A corporation the stock of which is held in few hands and not freely sold. The restraint on sale may be provided in the by-laws of the corporation, by definite contract between the stockholders, or by a general understanding among them. In most close corporations the restraint is a "gentlemen's agreement."

### *CORPORATION—CONTROLLED:*

Same as "Company—controlled."

### *CORPORATION—CONTROLLING:*

Same as "Company—controlling."

*CORPORATION—PUBLIC-SERVICE* }  
*CORPORATION—PUBLIC-UTILITY* } :

Same as "Company—public-utility."

### *CORPORATION—SUBSIDIARY:*

Same as "Company—subsidiary."